

Opinion of Financial Advisor to ACC

A copy of the opinion of Morgan Stanley & Co. Incorporated regarding the fairness from a financial point of view of the consideration to be received by the shareholders of ACC in the Merger is attached hereto as Appendix B.

Recommendation of the ACC Board of Directors

The ACC Board of Directors believes that the terms of the Merger are fair to, and in the best interests of, ACC and its shareholders. **THE BOARD OF DIRECTORS OF ACC HAS UNANIMOUSLY APPROVED AND ADOPTED THE MERGER AGREEMENT AND APPROVED THE MERGER AND UNANIMOUSLY RECOMMENDS THAT HOLDERS OF ACC STOCK VOTE FOR APPROVAL AND ADOPTION OF THE MERGER AGREEMENT AND APPROVAL OF THE MERGER.** See "The Merger—Background of the Merger," "—ACC's Reasons for the Merger" and "—Recommendation of the ACC Board of Directors" and "The Special Meeting—Interests of Certain Persons in the Merger; Vote Required."

Summary of The Special Meeting

The Special Meeting will be held on Tuesday, April 21, 1998, at 11:00 a.m., local time, at the offices of Nixon, Hargrave, Devans & Doyle LLP, 437 Madison Avenue, 24th Floor, New York, New York 10022. At such meeting, ACC shareholders will be asked to (i) approve and adopt the Merger Agreement and approve the Merger and all transactions related thereto and (ii) vote upon such other business as may properly come before the Special Meeting or any adjournment or postponement thereof. The ACC Board of Directors knows of no business that will be presented for consideration at the Special Meeting other than the matters described in this Proxy Statement/Prospectus.

Record Date; Outstanding Shares; Quorum

The date for the determination of the holders of record of the ACC Stock entitled to notice of and to vote at the Special Meeting is March 18, 1998 (the "Record Date"). Accordingly, only holders of record of shares of ACC Stock as of the close of business on the Record Date will be entitled to notice of and to vote at the Special Meeting. As of the Record Date, there were outstanding 17,519,684 shares of ACC Stock entitled to vote which were held by approximately 3,800 holders of record. Each holder of record of shares of ACC Stock on the Record Date is entitled to cast one vote per share on each proposal properly submitted for the vote of ACC's shareholders, either in person or by properly executed proxy, at the Special Meeting. The presence, in person or by properly executed proxy, of the holders of a majority of the outstanding shares of ACC Stock entitled to vote at the Special Meeting is necessary to constitute a quorum at the Special Meeting.

Interests of Certain Persons in the Merger; Vote Required

Directors and executive officers of ACC beneficially owned as of March 18, 1998, approximately 4.2% of the outstanding ACC Stock and will receive shares of TCG Class A Common Stock in the Merger on the same basis as other shareholders of ACC. The ACC Board of Directors was aware of these interests when it considered and approved the Merger and the Merger Agreement. See "The Special Meeting—Interests of Certain Persons in the Merger; Vote Required."

Approval and adoption of the Merger Agreement and approval of the Merger require the affirmative vote of a majority of the outstanding shares of ACC Stock, either in person or by proxy.

Regulatory Filings and Approvals

Consummation of the Merger is contingent upon the receipt of approvals from the FCC and state public service or utility commissions (or comparable state governmental authorities) and foreign telephone

administrations. ACC and TCG have previously made the necessary filings with these government agencies and all requisite consents of the FCC, state public service and utility commissions and foreign telephone regulatory authorities have been obtained. The applicable waiting period under the HSR Act expired on January 23, 1998. See "The Merger Agreement—Regulatory Approvals."

No Rights of Dissenting Stockholders

Stockholders of ACC will not have the right under the DGCL to seek an appraisal of their shares of ACC Stock. See "The Special Meeting—No Rights of Dissenting Stockholders."

Comparative Rights of Stockholders of ACC and TCG

The rights of stockholders of ACC are governed by the DGCL and by ACC's Certificate of Incorporation, as amended, and its Bylaws. The rights of stockholders of TCG are governed by the DGCL and by TCG's Certificate of Incorporation, TCG's Bylaws and, with respect to the Cable Stockholders (as defined in "—Business of Teleport Communications Group Inc." below), the Amended Stockholders' Agreement dated as of June 26, 1996 (the "Amended Stockholders' Agreement"). See "Description of the Capital Stock of TCG" and "Comparison of Stockholders' Rights" for a summary of certain differences between the rights of the holders of ACC Stock and TCG Class A Common Stock.

Business of Teleport Communications Group Inc.

TCG is the first and largest competitive local exchange carrier ("CLEC") in the United States and offers comprehensive telecommunications services in major metropolitan markets nationwide. TCG competes with incumbent local exchange carriers ("ILECs") by providing high quality, integrated telecommunications services, primarily over fiber optic digital networks, to meet the voice, data and video transmission needs of its customers. TCG's customers are principally telecommunications-intensive businesses, healthcare and educational institutions, governmental agencies, long distance carriers and resellers, Internet service providers, disaster recovery service providers, wireless communications and financial services companies. TCG offers these customers technologically advanced telecommunications services, as well as superior customer service, flexible pricing and vendor and route diversity. TCG was incorporated in 1983 under the laws of the State of Delaware.

For over 13 years, TCG has developed, operated and expanded its local telecommunications networks. During the fourth quarter of 1997, TCG added eight new markets, which brings total Metropolitan Statistical Areas ("MSAs") served by TCG to 65. These 65 MSAs are located in metropolitan New York/New Jersey, Los Angeles, Chicago, San Francisco, Philadelphia, Boston, Detroit, Baltimore, Washington, D.C., Dallas, Houston, Miami/Ft. Lauderdale, Seattle, San Diego, St. Louis, Pittsburgh, Phoenix, Denver, Milwaukee, Indianapolis, Hartford, Omaha, Providence, Cleveland, Portland (Oregon), Salt Lake City, Nashville, Chattanooga, Knoxville, Birmingham, Cincinnati, Columbus (Ohio), Charlotte, Tampa Bay, Sacramento, Minneapolis-St. Paul, Atlanta and Orlando, including 19 of the 20 largest metropolitan areas. As of December 31, 1997, TCG's fiber optic networks spanned over 9,470 route miles, contained over 491,090 fiber miles and served 13,510 buildings.

TCG has grown rapidly over the last several years, expanding its existing networks, developing new networks and increasing its service offerings. For 1997, TCG's revenues were \$494.3 million, an increase of \$210.9 million or 74% over its revenues on a pro forma basis for 1996. Substantially all of this growth was derived from the provision of local telecommunications services.

Total revenues from the local telecommunications market in the United States were estimated to have been approximately \$104 billion in 1997. In the past, competitive access providers, including TCG, were limited to serving only the dedicated services portion of this market, which was estimated to have been approximately \$6.0 billion in 1997, whereas the local switched services portion of this market for business customers was estimated

to have been approximately \$62 billion. TCG has been expanding into the switched services market over the last nine years by constructing switched networks and obtaining the necessary regulatory authorizations and interconnection arrangements to become a CLEC.

TCG believes that it is well positioned with the passage and initial implementation of the Telecommunications Act of 1996 (the "1996 Act") to address a significantly larger portion of the telecommunications market and to improve its operating margins in the switched and dedicated services markets by expanding its networks, installing additional high capacity digital switches (as well as increasing the switching capacity of existing switches) and offering new products and services. Also, in 1996, TCG introduced a new service offering consisting of basic Internet access for business customers, and in February 1997 TCG acquired CERFnet Services, Inc. ("CERFnet"), a leading regional Internet service provider ("ISP") for business customers. As of December 31, 1997, TCG offered a variety of Internet services in 22 metropolitan areas.

In September 1997, TCG introduced a general long distance service offering packaged with its existing local services in 22 metropolitan areas. The service is being provided primarily through the resale of other carriers' services, although TCG provides long distance services over its own facilities wherever possible.

TCG has historically benefited from its relationships with the parents of its Class B stockholders, TCI Communications, Inc. (together with its consolidated subsidiaries, "TCI"), Cox Communications, Inc. (together with its consolidated subsidiaries, "Cox"), Comcast Corporation (together with its consolidated subsidiaries, "Comcast") and, for periods prior to November 13, 1997, MediaOne of Delaware, Inc., formerly Continental Cablevision, Inc. (together with its consolidated subsidiaries, "Continental") (collectively, the "Cable Stockholders"), which are among the largest cable television companies in the United States. Through such relationships, TCG has been able to utilize rights-of-way, obtain fiber optic facilities and share the cost of building new fiber optic networks, thereby allowing TCG to achieve significant economies of scale and scope through capital efficiencies in extending its networks in a rapid, efficient and cost-effective manner.

TCG believes that it has several advantages that enable it to compete successfully in the new competitive telecommunications marketplace, including (i) extensive, technologically advanced networks located or under development in major metropolitan markets nationwide, (ii) state-of-the-art information systems, (iii) an experienced management team with significant operational, technical, financial and regulatory expertise in the telecommunications industry, (iv) positive relationships with its broad array of commercial customers, (v) TCG's reputation for high quality service, and (vi) established relationships with cable television operators.

TCG Business Strategy

As a premier competitive local telecommunications carrier, the key elements of TCG's business strategy are to:

- *Provide a wide range of local telecommunications services.* TCG provides a broad array of telecommunications services to meet the voice, data and video transmission needs of its customers, including basic local exchange telephone services, enhanced switched services, dedicated services, high speed switched data services, Internet services, disaster avoidance services and video channel transmission services. Switched services revenue increased 90% for the year ended December 31, 1997 from the switched services revenue for the year ended December 31, 1996 on a pro forma basis. In 1997, approximately 44% of TCG's revenues were generated from switched services. TCG expects a growing portion of its revenue to be derived from basic local exchange telephone services, enhanced switched services, Internet services and high speed switched data services as it continues to deploy digital switches in its markets.
- *Focus on business customers and telecommunications carriers.* TCG's networks serve large metropolitan markets, which have significant concentrations of telecommunications-intensive

businesses. TCG's customers in these markets include financial services companies, media and insurance companies, long distance carriers and resellers, healthcare and educational institutions, governmental agencies, Internet service providers, disaster recovery service providers, wireless communications companies, residential multiple dwelling units and an increasing number of small and medium-sized business customers. The national scope of TCG's local networks allows it to offer high volume business customers and long distance carriers uniformity of services, pricing, quality standards and customer service. In addition, TCG has arrangements with other telecommunications providers, including shared tenant services providers, cable television companies and long distance carriers, to resell TCG's services. In 1997, approximately 66% of TCG's revenues were generated from business customers (including resellers) and approximately 34% were generated from long distance carrier customers.

- *Offer local and long distance services.* TCG believes there is a growing demand, especially from small to medium-sized businesses, for telecommunications carriers to offer comprehensive packages of services so that a customer may obtain most or all of its telecommunications needs from a single provider. In September 1997 TCG broadened its existing long distance products into a general offering of long distance services in 22 metropolitan areas. These services have enhanced features and are available packaged with TCG's already comprehensive offerings of local services. TCG leverages its existing network investment by routing and switching as great a portion of long distance services as possible over its existing local and regional facilities, with the balance of such services being provided by the resale of the services of other carriers. For example, TCG has substantially completed a reconfiguration of the many adjacent local networks it operates between Boston and Washington, D.C. into a regional network covering a geographic area extending from southern New Hampshire to northern Virginia.
- *Expand geographic reach and density of existing networks and enter new markets.* In response to customer demand, TCG continues to increase the geographic reach and density of its existing networks by deploying additional fiber optic rings and connecting additional customers to its networks. TCG anticipates that making significant capital expenditures over the next several years to expand its existing networks and to develop new networks will lead to significant increases in revenue opportunities. TCG may also make selected acquisitions. As a facilities-based carrier, TCG utilizes a variety of means to expand geographically, including rights-of-way, easements, poles, ducts and conduits that are available from cable television operators, ILECs, railways, subways, electric, gas and water utilities and municipal, state and federal street and highway authorities. In the course of expanding its networks, TCG also has the ability to reach TCG customers by reselling all or a portion of the telecommunications services offered by ILECs. However, TCG believes that the extensive geographic reach and density of its networks make it less reliant than other CLECs on the networks of the ILECs. In addition, where appropriate, TCG has the ability to link its customers to its networks through a variety of technologies including the use of microwave services, including 38 gigahertz ("GHz") milliwave services. TCG plans to expand into additional metropolitan markets, which TCG believes will further broaden its customer base and enhance its ability to attract national business accounts for its services.
- *Offer high quality networks and superior customer service.* TCG believes that it offers cost and service quality advantages over ILECs as a result of its integrated operations, customer support, network monitoring and management systems and state-of-the-art technology deployed in TCG's digital networks. TCG consults closely with its customers to develop competitively priced telecommunications services that are tailored to their particular needs. TCG's centrally managed customer care and support operations are also designed to facilitate the processing of orders for changes and upgrades in services. TCG believes that it provides greater attention and responsiveness to its customers than do the ILECs.
- *Benefit from working relationships with cable television operators.* As of December 31, 1997, the cable television facilities of TCI, Cox and Comcast collectively passed approximately 38% of the country's 94.5 million homes passed by cable television facilities. Through its relationships with cable

television operators, including the Cable Stockholders, TCG has historically been able to utilize existing rights-of-way, obtain fiber optic facilities and share the cost of building new fiber optic networks, thereby allowing TCG to achieve significant economies of scale and scope through capital efficiencies in extending its existing networks in a rapid, efficient and cost-effective manner. TCG is currently working with certain Cable Stockholders for the provisioning of residential or multiple dwelling unit telephony services with TCG providing switching, call processing, calling features and ancillary services. Beginning as technical trials, these efforts have expanded into limited commercial offerings in certain locations in Connecticut, Michigan, Illinois, Maryland, Texas and Florida.

- *Spearhead regulatory reform.* As the first and largest CLEC, TCG has been at the forefront of industry efforts for over a decade to introduce competition to the local telecommunications market. TCG has aggressively pursued the goal of making competitive local exchange services economically, technically and operationally feasible by working for legislative and regulatory reform and through negotiations with ILECs. TCG has continued its regulatory reform activities in an effort to ensure that the 1996 Act is implemented and interpreted in a manner that promotes fair competition for telecommunications services.
- *Capitalize on management team experience.* TCG's management team is comprised of executives who are recognized as leaders in the development of the competitive local telecommunications industry. This management team has extensive operational, technical, financial and regulatory expertise as well as a proven track record in a rapidly changing marketplace.

The AT&T Merger Agreement (as defined below) contains certain restrictions on the conduct of TCG's business prior to the consummation of the AT&T Merger which are likely to affect TCG's pursuit of its strategies.

The TCG Reorganization

Prior to its initial public offering in 1996, TCG was owned by subsidiaries of the Cable Stockholders. The business was operated through TCG and, beginning in 1992, TCG Partners, which is a New York general partnership which was initially owned by the Cable Stockholders in the same percentages as TCG. TCG Partners was formed to invest, with TCG, the Cable Stockholders and other cable operators, in 14 local market partnerships (the "Local Market Partnerships") to develop and operate local telecommunications networks. The Local Market Partnerships were owned by TCG and/or TCG Partners, certain of the Cable Stockholders which had cable operations in the particular markets addressed by the Local Market Partnerships and, in some cases, other cable operators in such markets. To simplify this complex ownership structure, TCG and the Cable Stockholders agreed to consolidate the ownership of TCG Partners and of the Local Market Partnerships as wholly-owned subsidiaries of TCG (the "TCG Reorganization"). As part of this process, certain of the other cable operators agreed to sell their interests in the Local Market Partnerships to TCG directly or through a Cable Stockholder. See "Certain Relationships and Related Transactions of TCG—The TCG Reorganization." The financial statements for one of the Local Market Partnerships were previously consolidated with those of TCG. Therefore, as a result of the TCG Reorganization, TCG consolidated the financial statements of only 13 of the 14 Local Market Partnerships.

The AT&T Merger

On January 8, 1998, TCG entered into an Agreement and Plan of Merger (the "AT&T Merger Agreement") with AT&T and TA Merger Corp., a wholly-owned subsidiary of AT&T ("AT&T Merger Sub"), pursuant to which, subject to satisfaction of the closing conditions specified therein, AT&T Merger Sub would merge with and into TCG, with TCG surviving as a wholly-owned subsidiary of AT&T (the "AT&T Merger"). TCG and AT&T expect that the AT&T Merger will be consummated subsequent to the consummation of the Merger. Statements made herein regarding the AT&T Merger Agreement are not complete, and reference is made to the

copy of the AT&T Merger Agreement filed with the Commission as an exhibit to TCG's Report on Form 8-K on January 26, 1998. The following disclosure is qualified in its entirety by such reference.

In the AT&T Merger, each share of TCG Class A Common Stock (including shares issued to former ACC stockholders in the Merger, assuming that the Merger occurs prior to the AT&T Merger) and each share of the Class B Common Stock of TCG, par value \$0.01 per share (the "TCG Class B Common Stock," and, together with the TCG Class A Common Stock, the "TCG Common Stock") will be converted into 0.943 of a share of AT&T common stock. TCG and AT&T expect that the exchange will be tax-free to TCG stockholders, except to the extent cash is received in lieu of fractional shares. The AT&T Merger Agreement contains customary representations and warranties of the parties, which will not survive effectiveness of the AT&T Merger. In addition, the AT&T Merger Agreement contains certain restrictions on the conduct of TCG's business prior to the consummation of the AT&T Merger. Pursuant to the AT&T Merger Agreement, TCG has agreed, for the period prior to the AT&T Merger, to operate its business in the ordinary course, refrain from taking various corporate actions without the consent of AT&T, and not solicit or enter into negotiations or agreements relating to a competing business combination.

Pursuant to a Voting Agreement among the Cable Stockholders and AT&T, each Cable Stockholder executed and delivered to TCG a written consent in favor of and approving the AT&T Merger Agreement and the AT&T Merger. As a result, so long as the provisions of the AT&T Merger Agreement are not amended or waived, as specified therein, no further vote or meeting of TCG stockholders is necessary to approve or consummate the AT&T Merger. AT&T will register the shares of AT&T common stock to be issued in the AT&T Merger in exchange for shares of TCG Common Stock. AT&T will file a Registration Statement on Form S-4 to register such shares of AT&T common stock, and such registration statement will contain an information statement (the "AT&T-TCG Information Statement") that TCG will distribute to its stockholders. Stockholders of ACC will also receive the AT&T-TCG Information Statement at such time as it is mailed to TCG stockholders.

Pursuant to the Voting Agreement, each of the Cable Stockholders, on behalf of itself and certain of its affiliates, also agreed that (i) certain rights-of-way, colocation and similar agreements with TCG and its affiliates would be amended as of January 8, 1998 to provide that each such agreement would remain in effect for the longer of five years from such date and the current term of such agreement; and (ii) certain existing facilities agreements, facilities lease agreements or other arrangements (including arrangements relating to future agreements) relating to the lease or other grant of right to use fiber optic facilities between such Cable Stockholder or any of its affiliates and TCG or any of its subsidiaries would be automatically amended as of January 8, 1998 to conform with a form of Master Facilities Agreement agreed to by AT&T, the Cable Stockholders and TCG at the time of the execution of the AT&T Merger Agreement.

Consummation of the AT&T Merger is subject to certain closing conditions, including TCG and AT&T obtaining certain required regulatory approvals and other related consents. Accordingly, there can be no assurance that the AT&T Merger will be successfully consummated or, if successfully completed, when it might be completed.

TCG Recent Developments

Kansas City Fiber Network, L.P. In December 1997, TCG agreed to purchase substantially all of the assets used in connection with a fiber optic communications system of Kansas City Fiber Network, L.P. ("KCFN"), a CLEC, a majority of the equity of which is owned by TCI. Pending the closing of such transaction, TCG is providing certain services in connection with the operations of such communications system, which is located in the Kansas City Missouri/Overland Park, Kansas metropolitan area. The purchase price is approximately \$55 million in cash and TCG will be required to assume certain obligations of the seller. Consummation of the purchase of the assets of KCFN is subject to the receipt of required regulatory approvals and other related

consents. Accordingly, there can be no assurance that the purchase of the assets of KCFN will be successfully consummated or, if successfully completed, when it might be completed.

TCI Subordinated Note. In December 1997, TCG repaid at a discounted value of approximately \$25.1 million the TCI subordinated note (the "TCI Subordinated Note"), in the original principal amount of \$26 million, that it had issued to TCI in the TCG Reorganization.

1997 Equity Offering. On November 13, 1997, TCG consummated a public offering of 17,250,000 shares of TCG Class A Common Stock (the "1997 Equity Offering"). Of the 17,250,000 shares, 7,304,408 shares were offered by TCG (realizing net proceeds of approximately \$317.4 million to TCG) and 9,945,592 shares were offered by Continental Holding Company, a Massachusetts business trust, the shares of which are owned by MediaOne of Delaware, Inc., which is wholly owned by U S WEST, Inc. ("U S WEST"). MediaOne of Delaware, Inc. was formerly known as Continental Cablevision, Inc. ("Continental"). Continental acquired its interest in TCG in May 1993. As a result of the consummation of the 1997 Equity Offering, Continental does not hold any shares of TCG Common Stock.

BizTel Communications, Inc. On October 29, 1997, TCG acquired the remaining 50.1% equity interest in BizTel Communications, Inc. ("BizTel") not owned by TCG in exchange for the issuance of 1,667,631 shares of TCG Class A Common Stock (with cash paid in lieu of any fractional shares). TCG had previously acquired a 49.9% interest in BizTel in February 1996. BizTel holds FCC licenses to provide telecommunications services utilizing 38 GHz digital milliwave transmission in over 200 geographic areas, which include more than 95 of the 100 largest metropolitan markets and all markets where TCG operates. BizTel's 38 GHz milliwave services can be used by TCG to economically connect customers to TCG's fiber optic networks, to provide network redundancy, diverse routing or quick temporary installations and to provide stand-alone facilities where TCG does not have fiber optic networks.

Eastern TeleLogic Corporation. Effective as of March 1, 1997, TCG completed its acquisition of Eastern TeleLogic Corporation ("ETC") for 2,757,083 shares of TCG Class A Common Stock. TCG also assumed \$52.6 million in ETC debt and loaned \$115 million to ETC, the proceeds of which were used by ETC to redeem the stock held by certain minority shareholders. The acquisition of ETC provides TCG with access to the Philadelphia market, the nation's fifth largest market, and allows TCG to establish a contiguous network between Boston and Washington, D.C. ETC operates a Class 5 digital telephone switch on its 525-mile fiber optic network which connects to more than 360 buildings. After the acquisition, the name of ETC was changed to TCG Delaware Valley, Inc.

CERFnet Services, Inc. On February 4, 1997, TCG acquired from General Atomic Technologies Corporation and General Atomics all the outstanding capital stock of CERFnet Services, Inc. ("CERFnet"), a leading regional provider of Internet-related services to businesses, including dial-up and dedicated Internet access, World Wide Web hosting, and colocation services and Internet training. TCG issued to General Atomics, CERFnet's former controlling stockholder, 2,100,000 shares of TCG Class A Common Stock and granted to General Atomics and certain of its stockholders certain registration rights with respect to such shares. After the acquisition, the name of CERFnet was changed to TCG CERFnet, Inc.

TCG's principal executive offices are located at 437 Ridge Road, Executive Building 3, Dayton, New Jersey 08810, and its telephone number is 732-392-2000.

Business of ACC Corp.

ACC is a switch-based provider of telecommunications services in the United States, Canada, the United Kingdom (the "U.K.") and Germany. ACC primarily provides long distance telecommunications services to a diversified customer base of businesses, residential customers and educational institutions. ACC also provides

local telephone service as a switch-based local exchange reseller in upstate New York and Massachusetts and as a reseller of local exchange services in Ontario and Quebec, Canada. ACC entered the German market during 1997 as a switchless reseller of long distance telecommunications services and became a switch-based provider in Germany in February of 1998. ACC operates an advanced telecommunications network, consisting of ten long distance international and domestic switches located in the U.S., Canada, the U.K. and Germany, six local exchange switches located in the U.S., leased transmission lines, indefeasible rights of use in international submarine cables ("IRUs") and network management systems designed to optimize traffic routing.

ACC's objective is to grow its telecommunications customer base in its existing markets and to establish itself in deregulating Western European markets that have high density telecommunications traffic when ACC believes that business and regulatory conditions warrant. The key elements of ACC's business strategy are: (1) to broaden ACC's penetration of the U.S., Canadian, U.K. and German telecommunications markets by expanding its long distance, local and other service offerings and geographic reach; (2) to utilize ACC's operating experience as an early entrant in deregulating markets in the U.S., Canada and the U.K. to penetrate other deregulating telecommunications markets that have high density telecommunications traffic; (3) to achieve economies of scale and scope in the utilization of ACC's network; and (4) to seek acquisitions, investments or strategic alliances involving assets or businesses that are complementary to ACC's current operations.

ACC's principal competitive strengths are: (1) ACC's sales and marketing organization and the customized service ACC offers to its customers; (2) ACC's offering of competitive prices, which ACC believes generally are lower than prices charged by the major carriers in each of its markets; (3) ACC's position as an early entrant in the U.S., Canadian and U.K. markets as an alternative carrier; (4) ACC's focus on more profitable international telecommunications traffic between the U.S., Canada and the U.K.; and (5) ACC's switched-based networking capabilities. ACC believes that its ownership of switches reduces its reliance on other carriers and enables ACC to efficiently route telecommunications traffic over multiple leased transmission lines and IRUs and to control costs, call record data and customer information. The availability of existing transmission capacity in its markets makes leasing of transmission lines attractive to ACC and enables it to grow network usage without having to incur the significant capital and operating costs associated with the development and operation of a transmission line infrastructure.

ACC primarily targets business customers with approximately \$500 to \$15,000 of monthly usage, selected residential customers and colleges and universities. ACC believes that, in addition to being price-driven, these customers tend to be focused on customer service, more likely to rely on a single carrier for their telecommunications needs and less likely to change carriers than larger commercial customers. The diversity of ACC's targeted customer base enhances network utilization by combining business-driven workday traffic with night and weekend off-peak traffic from student and residential customers. ACC strives to be more cost effective, flexible, innovative and responsive to the needs of its customers than the major carriers, which principally focus their direct sales efforts on large commercial accounts and residential customers.

ACC was originally incorporated in New York in 1982 under the name A.C. Teleconnect Corp. and was reincorporated in Delaware in 1987 under the name ACC Corp. ACC Corp.'s consolidated subsidiaries include ACC National Long Distance Corp., ACC National Telecom Corp. and ACC Long Distance Corp. (collectively, "ACC U.S."), ACC TelEnterprises Ltd. ("ACC Canada") and ACC Long Distance UK Limited ("ACC U.K."). ACC's principal executive offices are located at 400 West Avenue, Rochester, New York 14611 and its telephone number at that address is 716-987-3000.

ACC Recent Developments

ACC Management Changes. On December 5, 1997, ACC announced that its Chairman of the Board of Directors and Chief Executive Officer, David K. Laniak, 62, had died unexpectedly due to health-related complications. As a result, ACC's Board of Directors named Robert M. Van Degna, Chairman of the Board of

Directors. Mr. Van Degna has served as an outside director of ACC since 1995. ACC's Board of Directors also established an Office of the Chief Executive to jointly perform the functions of Chief Executive Officer, consisting of Christopher Bantoft, Executive Vice President, Michael R. Daley, Executive Vice President and Chief Financial Officer, and Steve M. Dubnik, Executive Vice President.

U.S. WATS Merger. On October 28, 1997, ACC entered into an Agreement and Plan of Merger (the "USW Merger Agreement"), by and among ACC, ACC Acquisition-Blue Corp., a Delaware corporation wholly owned by ACC ("Acquisition Sub"), and US WATS, Inc., a New York corporation ("USW"), pursuant to which Acquisition Sub would have merged with and into USW (the "USW Merger"). On March 11, 1998, for reasons beyond the control of both parties which made it impossible to conclude the USW Merger prior to the March 31, 1998 termination date, ACC and USW agreed to a mutual termination of the USW Merger Agreement.

Market Price Information

TCG Class A Common Stock commenced trading on Nasdaq on June 27, 1996 under the symbol "TCGI". As of March 25, 1998, the last reported sale price of the TCG Class A Common Stock was \$59¹⁵/₁₆. As of March 23, 1998, there were approximately 12,453 holders of record of the TCG Class A Common Stock. The following table sets forth the high and low sale prices of the TCG Class A Common Stock as reported by Nasdaq for each of the quarters in the period commencing June 27, 1996 through December 31, 1997 and the first quarter of 1998 through March 25, 1998.

	<u>High</u>	<u>Low</u>
1996		
Second Quarter	\$19 ¹ / ₈	\$16
Third Quarter	27 ³ / ₈	14 ¹ / ₈
Fourth Quarter	35 ³ / ₈	22
1997		
First Quarter	35 ¹ / ₄	22 ⁵ / ₈
Second Quarter	34 ¹ / ₈	21
Third Quarter	46 ¹ / ₈	33 ¹ / ₂
Fourth Quarter	60 ⁷ / ₃₂	44 ¹ / ₄
1998		
First Quarter (through March 25, 1998)	60 ⁵ / ₈	52 ³ / ₈

ACC Stock is traded on Nasdaq under the symbol "ACCC". The last reported sale price of the ACC Stock on Nasdaq on March 25, 1998, was \$54 $\frac{1}{8}$ per share. There were approximately 3,800 holders of record of ACC Stock as of March 18, 1998. The following table sets forth for the periods indicated the high and low sale prices of ACC Stock as reported during each quarterly period in 1996, 1997 and 1998 (through March 25, 1998) on Nasdaq. The prices do not include retail mark ups, mark downs or commissions. Information presented below has been adjusted to reflect a three-for-two stock split that was distributed on August 8, 1996.

	<u>High</u>	<u>Low</u>
1996		
First Quarter	\$20 $\frac{1}{8}$	\$14 $\frac{3}{8}$
Second Quarter	32 $\frac{27}{64}$	18 $\frac{37}{64}$
Third Quarter	54 $\frac{3}{4}$	29 $\frac{1}{2}$
Fourth Quarter	47 $\frac{3}{4}$	24 $\frac{3}{4}$
1997		
First Quarter	36 $\frac{1}{4}$	20 $\frac{1}{2}$
Second Quarter	31 $\frac{5}{8}$	14 $\frac{1}{4}$
Third Quarter	37	28 $\frac{1}{2}$
Fourth Quarter	52 $\frac{7}{8}$	25
1998		
First Quarter (through March 25, 1998)	54 $\frac{3}{8}$	46 $\frac{3}{8}$

On November 25, 1997, the date immediately prior to the public announcement of the transactions contemplated by the Merger Agreement, the last reported sale price of the ACC Stock on Nasdaq was \$43 $\frac{1}{2}$ per share. On November 25, 1997, the last reported sale price of the TCG Class A Common Stock on Nasdaq was \$49 $\frac{1}{4}$ per share.

Comparative Per Share Data

The table below sets forth historical per share data of TCG and ACC and pro forma combined per share data as if the Merger had been completed. The pro forma combined information in the table is based upon the historical financial statements of TCG and ACC, and is unaudited. The pro forma combined information is presented for comparison purposes only and is not intended to predict TCG's actual operating results and financial position following completion of the Merger.

	At or for Year Ended December 31, 1997
Historical:	
Per Share of TCG Common Stock:	
Book value	\$ 5.90
Cash dividends declared	—
Earnings (loss)	\$(1.34)
Per Share of ACC Stock:	
Book value	\$ 8.00
Cash dividends declared	—
Earnings—basic	\$ 0.62
Earnings—diluted	\$ 0.59
Pro Forma for Merger:	
Combined per share of TCG Common Stock and per share of ACC Stock equivalent:	
Book value	\$10.37
Cash dividends declared	—
Earnings (loss)	\$(1.25)

Dividend Policy of TCG

TCG has never paid or declared dividends on the TCG Common Stock and intends to retain future earnings to finance the development and expansion of its networks and operations. TCG does not anticipate paying any cash dividends in the foreseeable future on the TCG Common Stock. Any decision whether to pay cash dividends will be made by TCG's Board of Directors in light of the conditions then existing, including TCG's results of operations, financial condition and requirements, business conditions and other factors. In addition, the Indentures governing TCG's 9 $\frac{7}{8}$ % Senior Notes due 2006 (the "TCG Senior Notes") and 11 $\frac{1}{8}$ % Senior Discount Notes due 2007 (the "TCG Senior Discount Notes") contain covenants which may limit the ability of TCG to pay dividends on the TCG Class A Common Stock.

Summary Consolidated and Combined Financial and Other Operating Data of TCG

Historical summary combined financial data for the years 1993, 1994 and 1995 have been derived from the combined audited historical financial statements of TCG and TCG Partners, and the historical summary consolidated financial data set forth below for 1996 and 1997 have been derived from the consolidated audited historical financial statements of TCG. The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations of TCG," and the consolidated Financial Statements of TCG and the combined Financial Statements of TCG and TCG Partners and the notes thereto included in this Proxy Statement/Prospectus. The financial statements for the years 1995 through 1997 have been audited by Deloitte & Touche LLP, independent auditors, whose report, included in TCG's Annual Report on Form 10-K for the year ended December 31, 1997 (the "1997 TCG Form 10-K"), has been included in this Proxy Statement/Prospectus. The following tables also present unaudited pro forma financial data for the year ended December 31, 1997 as if the Merger had occurred on January 1, 1997. Operating results for the year ended December 31, 1997 are not necessarily indicative of the results that may be expected for the full year. The summary unaudited pro forma financial information does not purport to represent what TCG's results of operations would actually have been if the transaction that gave rise to the pro forma adjustments had occurred on the date assumed, nor are they indicative of TCG's future results.

	Years Ended December 31,					TCG/ACC Pro forma(1) Consolidated 1997
	1993	1994	1995	1996	1997	
	(dollars in thousands, except share amounts)					
Statements of Operations Data:						
Revenues:						
Telecommunications services	\$ 82,374	\$ 99,983	\$ 134,652	\$ 244,864	\$ 494,304	\$ 866,776
Management and royalty fee from local market partnerships(2)	1,555	20,691	31,517	22,805	—	—
Total revenues	83,929	120,674	166,169	267,669	494,304	866,776
Operating expenses	54,218	76,572	93,118	157,591	283,440	505,470
Selling, general and administrative(3)	34,281	39,989	50,475	85,025	165,977	278,164
In-process research and development costs(4)	—	—	—	—	22,000	22,000
Depreciation and amortization	16,197	19,933	37,837	78,416	155,402	200,796
Operating (loss)	(20,767)	(15,820)	(15,261)	(53,363)	(132,515)	(139,654)
Interest:						
Interest income	1,072	1,711	4,067	30,219	31,111	31,326
Interest expense	(1,407)	(5,079)	(23,331)	(73,633)	(116,172)	(119,901)
Net interest expense	(335)	(3,368)	(19,264)	(43,414)	(85,061)	(88,575)
Foreign exchange gain (loss)	—	—	—	—	—	(162)
Minority interest(5)	796	1,395	663	3,520	—	—
Equity in losses of unconsolidated affiliates	(2,114)	(11,763)	(19,541)	(19,400)	(3,427)	(3,427)
Loss before income taxes	(22,420)	(29,556)	(53,403)	(112,657)	(221,003)	(231,818)
Income tax benefit (provision)	4,149	(433)	(401)	(2,193)	(1,664)	(2,140)
Net (loss)	\$ (18,271)	\$ (29,989)	\$ (53,804)	\$ (114,850)	\$ (222,667)	\$ (233,958)
Net (loss) per share	\$ (0.26)	\$ (0.43)	\$ (0.77)	\$ (1.00)	\$ (1.34)	\$ (1.25)
Weighted average number of shares	70,000,140	70,000,140	70,000,140	114,443,695	165,728,059	186,833,048
Other Data:						
EBITDA(6)	\$ (4,570)	\$ 4,113	\$ 22,576	\$ 25,053	\$ 44,887	\$ 83,142
Cash flow from operating activities	47,438	87,753	36,141	93,618	(21,211)	(16,787)
Cash flow from investing activities	(149,107)	(265,026)	(207,967)	(913,513)	(341,624)	(433,634)
Cash flow from financing activities	129,822	171,557	157,688	1,085,573	258,626	344,774
Capital expenditures	155,184	143,276	154,807	308,112	501,035	569,535
Ratio of earnings to fixed charges(7)	—	—	—	—	—	—

	As of December 31,					TCG/ACC Pro forma Consolidated
	1993	1994	1995	1996	1997	1997
	(dollars in thousands)					
Balance Sheet Data:						
Cash, cash equivalents and marketable securities	\$ 31,716	\$ 26,000	\$ 11,862	\$ 718,346	\$ 480,159	\$ 484,147
Working capital	(15,278)	(32,719)	(47,083)	545,325	224,889	221,710
Fixed assets—at cost	329,686	422,964	545,653	1,304,229	1,873,083	2,063,065
Total assets	365,202	486,983	614,793	2,050,097	2,456,301	3,642,989
Long-term debt (including capital lease obligations)	29,689	200,462	368,464	1,021,063	1,054,079	1,144,300
Minority interest	12,661	2,903	4,409	—	—	—
Stockholders' equity & partners' capital (deficit)	209,141	179,152	125,348	796,870	1,031,616	2,031,616

	As of December 31,				
	1993	1994	1995	1996	1997
Operating Data: (8)					
Metropolitan markets served	18	33	48	51	65
Route miles	1,952	3,902	5,428	6,744	9,474
Fiber miles	90,700	167,314	253,285	346,039	491,097
Voice grade circuits	1,101,317	1,759,058	2,870,837	4,428,770	7,350,527
Digital telephone switches	4	6	21	25	35
Employees	725	1,125	1,499	2,050	3,059

- (1) Pro Forma adjustments include the amortization of goodwill recorded in the Merger, the elimination of transactions between TCG and ACC, and the reclassification of bad debt expense for ACC from selling, general and administrative expense to operating expense. The fair value of the net assets acquired, including the allocation of goodwill and other intangible assets, is currently being reviewed by management. Certain items have been reclassified from prepaid expenses on the consolidated balance sheet of ACC to fixed assets to conform with the TCG presentation. The pro forma financial information presented above is not necessarily indicative of the operating results which would have been achieved had the Merger occurred at the beginning of the periods presented or of the results to be achieved in the future.
- (2) Under the terms of various management services arrangements among TCG and its unconsolidated Local Market Partnerships and certain other affiliates, TCG provided operating and administrative support services to such entities, for which it earned management fees. Upon consummation of the TCG Reorganization, these fees were no longer reflected as revenues.
- (3) Included in selling, general and administrative expenses are expenses incurred for services provided to the Local Market Partnerships, in the amounts of \$1.4 million, \$19.4 million, \$29.6 million and \$21.4 million for the years 1993, 1994, 1995 and 1996, respectively.
- (4) In December 1997, TCG evaluated the acquired assets and liabilities of CERFnet, and as a result of the evaluation, TCG expensed acquired in-process research and development costs.
- (5) Minority interest reflects Fidelity Communications Inc.'s equity interest in Teleport Communications Boston for 1993 and 1994; a Cox affiliate's interest in TCG San Diego for 1993 and 1994; and TCI and Continental affiliates' interests in TCG St. Louis for 1994, 1995 and 1996. In 1996, after giving effect to the TCG Reorganization and the 1996 Offerings (as defined herein), the minority interest reflects Viacom Telecom, Inc.'s equity interests of 22.2% and 22.9% in TCG Seattle and TCG San Francisco, respectively, and InterMedia Partners' equity interest of 4.2% in TCG San Francisco. In 1997, TCG no longer recorded minority interest for the Local Market Partnerships due to the completion of the TCG Reorganization.
- (6) EBITDA consists of earnings (loss) before interest, income taxes, depreciation, amortization, minority interest and equity in losses of unconsolidated affiliates. It is a measure commonly used in the telecommunications industry and is presented to assist in understanding TCG's operating results. EBITDA is not intended to represent cash flows or results of operations in accordance with U.S. GAAP for the periods indicated. TCG's use of EBITDA may not be comparable to similarly titled measures due to the use by other companies of different financial statement components in calculating EBITDA. In 1997 this amount represents Recurring EBITDA which is defined as EBITDA excluding a one-time non-recurring charge for acquired in-process research and development costs.
- (7) The ratio of earnings to fixed charges is computed by dividing pretax income from operations before fixed charges (other than capitalized interest) by fixed charges. Fixed charges consist of interest charges and amortization of debt expense and discount or premium related to indebtedness, whether expensed or capitalized and that portion of rental expense TCG believes to be representative of interest. For the years 1993, 1994, 1995, 1996 and 1997, earnings were insufficient to cover fixed charges by \$23.2 million, \$31.0 million, \$54.1 million, \$116.2 million and \$221.0 million, respectively. On a pro forma basis for the Merger, for the year ended December 31, 1997, earnings would have been insufficient to cover fixed charges by \$231.8 million.
- (8) Operating data in all periods reflect operations of TCG, TCG Partners and the Local Market Partnerships and are derived from unaudited non-financial records which were prepared by TCG.

Summary Historical Financial Data of ACC

The following table presents summary historical financial data of ACC. The historical data for each of the years in the five-year period ended December 31, 1997 have been derived from the audited historical consolidated financial statements of ACC.

These data should be read in conjunction with, and are qualified in their entirety by, the consolidated financial statements of ACC and the related notes thereto, which are included herein. See "Index to Financial Statements—ACC Corp. and Subsidiaries."

	Year Ended December 31				
	1993	1994	1995(6)	1996	1997(4)
	(dollars in thousands, except per share amounts)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Total revenue.....	\$105,946	\$126,444	\$188,866	\$308,767	\$372,613
Net income (loss) from continuing operations(1)	\$ 1,653	\$ (11,329)	\$ (5,354)	\$ 7,765	\$ 10,391
Net income (loss) from continuing operations after Series A Preferred Stock dividends and accretion(1)	\$ 1,653	\$ (11,329)	\$ (5,894)	\$ 5,284	\$ 10,391
Net income (loss) from continuing operations after Series A Preferred Stock dividends and accretion per common and common equivalent share(2)					
—basic	\$ 0.16	\$ (1.09)	\$ (0.52)	\$ 0.37	\$ 0.62
—diluted	\$ 0.16	\$ (1.09)	\$ (0.52)	\$ 0.34	\$ 0.59
OTHER FINANCIAL DATA:					
Cash dividends declared per share of Class A Common Stock(2)(3)	\$ 0.40	\$ 0.08	\$ 0.02	\$ —	\$ —

	December 31,				
	1993	1994	1995(6)	1996	1997(4)
CONSOLIDATED BALANCE SHEET DATA:					
Total assets(5)	\$ 61,718	\$ 84,448	\$123,984	\$204,031	\$319,618
Long term debt, excluding current maturities	\$ 1,795	\$ 29,914	\$ 28,050	\$ 6,007	\$ 90,221
Redeemable preferred stock	\$ —	\$ —	\$ 9,448	\$ —	\$ —
Shareholders' equity	\$ 31,506	\$ 19,086	\$ 26,407	\$117,863	\$137,716

- (1) Includes impact of \$2.160 of charges incurred in 1994 in connection with enhancement of the ACC network to prepare for equal access for its Canadian customers. Also includes an asset write-down of \$12,807 in 1993.
- (2) On June 14, 1996, the ACC Board of Directors authorized a three-for-two stock split in the form of a stock dividend issued on August 8, 1996 of the ACC Stock to shareholders of record as of July 3, 1996. Share and per share amounts for all prior periods have been adjusted for the stock split.
- (3) The ACC financing arrangements restrict the payment of dividends on the ACC Stock. ACC anticipates that it will not pay dividends in the foreseeable future.
- (4) Includes the results of operations of companies acquired by ACC during 1997: Transphone International Ltd. from June 1, 1997, United Telecom Ltd. from July 1, 1997, VISTA International Communications Inc. from August 1, 1997, and Telenational Communications Deutschland Limited Partnership from July 1, 1997.
- (5) Balance sheet data from discontinued operations is excluded.
- (6) Includes the results of operations of Metrowide Communications from August 1, 1995, the date of acquisition.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this Proxy Statement/Prospectus that are not historical facts, including, without limitation, statements of future expectations, projections of results of operations and financial condition, statements of future economic performance and other forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of TCG and ACC to differ materially from those contemplated in such forward-looking statements. In addition to the specific matters referred to herein, including, without limitation, those noted under the caption "Risk Factors," important factors which may cause actual results to differ from those contemplated in such forward-looking statements include: (i) the results of TCG's and ACC's efforts to implement its business strategy; (ii) the effect of economic conditions; (iii) actions of TCG's and ACC's competitors and TCG's and ACC's ability to respond to such actions; (iv) the cost of TCG's capital, which may depend in part on TCG's portfolio quality, ratings, prospects and outlook; (v) changes in government regulation, tax rates and other similar matters; and (vi) other risks detailed in TCG's and ACC's other filings with the Commission.

RISK FACTORS

Nonrealization of Synergies

The Merger involves the integration of two companies that have previously operated independently. No assurance can be given that TCG will integrate the respective operations of TCG and ACC without encountering difficulties or experiencing the loss of key ACC personnel or that the benefits expected from such integration will be realized. In addition, there can be no assurance that ACC will realize anticipated synergies from the Merger. See "The Merger—ACC's Reasons for the Merger."

Pendency of the AT&T Merger

The pendency of the AT&T Merger could have the effect of causing the prices at which shares of TCG Class A Common Stock trade prior to and after the Merger to be greater than or less than the trading prices that would otherwise prevail. In addition, substantial delay in consummating, or failure to consummate, the AT&T Merger could have a material impact on the trading price of TCG Class A Common Stock.

Pursuant to the Voting Agreement executed in connection with the AT&T Merger, the Cable Stockholders have approved the AT&T Merger. Therefore, during the pendency of the AT&T Merger, any competing merger proposal, tender offer or proxy contest would be precluded, even if such action were favored by a majority of the holders of the TCG Class A Common Stock.

Negative Cash Flow and Operating Losses

The capital expenditures of TCG associated with the installation, development, expansion and acquisition of its existing and new telecommunications networks are substantial, and a significant portion of these expenditures generally are incurred before any revenues are realized. These expenditures, together with associated initial operating expenses, generally result in negative cash flow and operating losses until an adequate customer base and revenue stream for these networks have been established. TCG expects to incur net losses for the foreseeable future as it continues to install, develop, expand and acquire its existing and new telecommunications networks and as it expands its long distance and Internet services. There can be no assurance that an adequate revenue base will be established in each of TCG's networks or that TCG will achieve or sustain profitability or generate sufficient positive cash flow to service its debt.

Significant Capital Requirements

The development and expansion of TCG's existing and new networks and services, including long distance services, will require significant additional capital expenditures. TCG will continue to evaluate additional revenue

opportunities in each of its markets and, as additional opportunities develop, TCG plans to make additional capital investments in its networks that are required to pursue such opportunities.

TCG expects to meet its capital needs with the proceeds of the 1996 Offerings, the 1997 Equity Offering, internally generated cash flow, together with the proceeds from existing and future credit facilities and other borrowings, and the proceeds from sales of additional debt and equity securities. TCG New York, Inc., a wholly-owned subsidiary of TCG ("TCGNY"), has entered into an Amended and Restated Loan Agreement (the "Revolving Credit Agreement"), pursuant to which certain financial institutions have agreed to lend TCGNY up to \$400 million to be used in part to fund TCG's expansion and development of its networks, of which \$344.4 million was available as of December 31, 1997. The ability of TCGNY to make distributions to TCG and to borrow the undrawn portion of the commitment under the Revolving Credit Agreement is subject to the compliance by TCGNY with the covenants contained therein.

The incurrence of long-term indebtedness by TCG in an amount in excess of \$4 billion is subject to certain state regulatory approval in New York and in New Jersey.

There can be no assurance that TCG will be successful in generating sufficient cash flow or raising debt or equity capital in sufficient amounts on terms acceptable to it. The ability of TCG to borrow amounts under the Revolving Credit Agreement and to raise debt or equity capital is subject to limitations imposed under the AT&T Merger Agreement. The failure to generate sufficient cash flow or to raise sufficient funds may require TCG to delay or abandon some or all of its development and expansion plans, which could have a material adverse effect on TCG's growth, its ability to compete in the telecommunications services industry and its ability to service its debt. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of TCG—Liquidity and Capital Resources."

Substantial Leverage

TCG is highly leveraged. As of December 31, 1997, TCG had approximately \$1.1 billion of consolidated total debt and \$1.0 billion of consolidated stockholders' equity. The degree to which TCG is leveraged could have a material adverse effect upon TCG. For example: (i) TCG's ability to obtain additional financing in the future for capital expenditures, acquisitions, working capital or general corporate or other purposes may be limited, (ii) a substantial portion of TCG's cash flow from operations will be dedicated to the payment of the principal of, and interest on, its debt and (iii) TCG's substantial leverage may make it more vulnerable to economic downturns, limit its ability to withstand competitive pressures and reduce its flexibility in responding to changing business and economic conditions. In addition, a failure to comply with the covenants and other provisions of its debt instruments could result in events of default under such instruments, which could permit acceleration of the debt under such instruments and in some cases acceleration of debt under other instruments that contain cross-default or cross-acceleration provisions.

Although TCG believes that it will be able to generate sufficient cash flow from operations to meet its debt service obligations as they become due, if it is unable to do so, it could face liquidity problems. In such circumstances, TCG may be required to renegotiate the terms of the instruments relating to its long-term debt or to refinance all or a portion of its long-term debt. There can be no assurance, however, that TCG will be able to successfully renegotiate such terms or refinance its indebtedness on terms acceptable to it. If TCG were unable to refinance its indebtedness or obtain new financing under these circumstances, TCG would have to consider various other options such as the sale of certain assets to meet its required debt service, the sale of additional equity, negotiations with its lenders to restructure applicable indebtedness or other options available to it under law.

Risks of Expansion

TCG's continued expansion and development of its networks will depend on, among other things, TCG's ability to assess markets, design fiber network backbone routes, install facilities, acquire rights-of-way and

building access, including roof rights, obtain any required governmental authorizations and permits and implement interconnection with ILECs, all in a timely manner, at reasonable costs and on terms and conditions acceptable to TCG. TCG's ability to manage this expansion effectively will require it to continue to implement and improve its operational, billing and financial systems and to expand, train and manage its employee base. TCG's inability to expand its existing networks or install new networks or manage effectively such expansion and installation could have a material adverse effect upon TCG's business strategy, financial condition and results of operations. In addition, to the extent that TCG's expansion is carried out through acquisitions, there can be no assurance that any desired acquisition could be made in a timely manner on terms and conditions acceptable to TCG or that any such acquisition could be successfully integrated into TCG's operations.

Currently, TCG primarily offers local services in domestic markets. However, TCG is rapidly expanding into other related telecommunications services, such as Internet services, long distance and local services in international markets. As TCG expands into new categories of telecommunications services, it will incur certain additional risks in connection with such expansion, including technological compatibility risks, increased risk of losses from unauthorized use of long distance services, increased risk of liability from Internet services, fluctuations in currency exchange rates, potentially adverse tax consequences resulting from exposure to different tax regimes (including, without limitation, high value added taxes), legal and regulatory risks, increased customer credit risks and possible adverse reaction by some of its current customers.

Dependence Upon Interconnection with ILECs; Substantial Competition

TCG faces substantial and increasing competition in each of the metropolitan areas it serves or plans to serve from entities that offer services similar to those offered by TCG, including ILECs such as Ameritech, Bell Atlantic (including NYNEX), BellSouth, SBC Communications (including Pacific Telesis Group and Southern New England Telecommunications), U S WEST, Cincinnati Bell and GTE. TCG believes that ILECs generally benefit from their long-standing relations with customers, substantial technical and financial resources, established ubiquitous networks and federal and state regulations that could provide them with increased pricing flexibility as competition increases. In addition, in most of the metropolitan areas in which TCG currently operates, at least one, and sometimes several, other CLECs offer substantially similar services at prices competitive with those of TCG. Other CLECs, ILECs entering new geographic markets, cable television companies, electric utilities, long distance carriers, microwave carriers, wireless telephone system operators and private networks built by large end users may offer services similar to those offered by TCG. In addition, the current trend of actual and proposed business combinations, strategic investments and alliances in the telecommunications, cable television and related industries, which include mergers between participants in the telecommunication industry, may create significant new competitors for TCG.

The 1996 Act is intended to increase competition in the local telecommunications business. The 1996 Act requires all local exchange providers, including TCG and new entrants, to interconnect with other carriers, and to offer their services for resale and requires ILECs to offer their substantial network facilities on a discounted wholesale basis and on an unbundled basis. These requirements may facilitate entry by new competitors without substantial capital risk or investment. However, there can be no assurance that any rates or facilities offered by ILECs to TCG or other CLECs will be economically attractive or technically viable.

TCG believes that the 1996 Act will provide it with increased business opportunities and potentially better margins by opening all local markets to competition and by requiring ILECs to provide improved direct interconnection at lower cost. However, under the 1996 Act, the FCC and some state regulatory authorities may provide ILECs with increased flexibility to reprice their service as competition develops and as ILECs allow competitors to interconnect to their networks. In addition, some new entrants in the local market may price certain services to a particular customer or for a particular route below the prices charged by TCG for services to that customer or for that route, just as TCG may itself underprice those new entrants. If ILECs and other competitors lower their rates and can sustain significantly lower prices over time, this may adversely affect revenues and margins of TCG. If regulatory decisions permit the ILECs to charge CLECs substantial fees for

interconnection to the ILECs' networks or afford ILECs other regulatory relief, such decisions could also have a material adverse effect on TCG.

On March 17, 1998, the Staff of the New York Public Service Commission ("NYPSC") released a draft pre-filing agreement that the Staff was considering entering into with New York Telephone. That agreement would set forth certain commitments by New York Telephone relating to opening its local market to competition and complying with the FCC's competitive checklist, in return for which the NYPSC would endorse New York Telephone's FCC petition to enter the interLATA toll market. If the agreement is finalized, it would likely expedite New York Telephone's long distance entry, and could adversely impact TCG's and ACC's competitive standing in the long distance market.

Federal and State Regulation

TCG is subject to extensive federal and state regulation, much of which is governed by the 1996 Act. TCG cannot predict the manner in which all aspects of the 1996 Act will be implemented by the FCC and by state regulators or the impact that such implementation and regulation will have on its business. The terms of TCG's interconnection agreements with ILECs pursuant to the 1996 Act and the costs of the negotiations, arbitrations, and regulatory and judicial proceedings associated with obtaining such agreements remain uncertain and depend on the outcome of pending and future litigation, legislation and administrative proceedings. The extent to which TCG will be required to contribute a portion of its gross revenues to support universal service programs under the 1996 Act has been resolved only in part, and the extent to which TCG will be eligible to receive payments from the universal service fund remains uncertain. See "Legislation and Regulation."

The manner in which the FCC and the courts implement the standards and procedures in the 1996 Act for determining whether certain ILECs (Ameritech, Bell Atlantic, BellSouth, SBC Communications and U S WEST) are permitted to provide long distance services within their telephone service areas may affect TCG's ability to compete with those ILECs and may affect the market share of the major long distance carriers, which are among TCG's largest customers. On December 31, 1997, a federal judge in Texas held that statutory restrictions on the Bell Operating Companies' ("BOCs") provision of long distance services and manufacturing are an unconstitutional bill of attainder because the restrictions target the BOCs without imposing similar restrictions on other similarly situated companies. An appeal is pending before a federal court of appeals. If upheld, this ruling could provide BOCs with a basis for arguing that they should immediately be allowed to provide interLATA communications services and engage in manufacturing. Such a ruling would undercut the basic structure of the 1996 Act, which is designed to encourage the BOCs to open their local markets to competition by offering them permission to offer interLATA services as a *quid pro quo*.

These incentives could also be eliminated by legislation: on March 16, 1998, the chairman of the U.S. Senate Communications Subcommittee introduced a bill that would allow BOCs to provide interLATA services within one year after the date of enactment, whether or not they have opened their local markets to competition. While it appears unlikely that this bill will be adopted in the current session of Congress, it could diminish the FCC's resolve to enforce meaningful standards for local competition.

The FCC is also conducting a proceeding that will likely result in substantial changes to its interstate access charge system. While TCG cannot predict the final outcome, it is likely that the rules ultimately implemented by the FCC will result in a significant restructuring of rates for ILEC interstate switched access services and a significant increase in pricing flexibility for ILECs, which could have a material adverse effect on TCG. See "Legislation and Regulation."

Various ILECs have argued that certain enhanced service providers, including ISPs, should no longer be exempt from paying exchange access charges. The FCC has considered and rejected arguments that the exemption should be removed, but it could revisit the issue if large amounts of traffic migrate from traditional telecommunication networks to the Internet. In the meantime, certain ILECs have taken the position that they will not compensate CLECs for completing calls to ISPs, even though the 1996 Act and interconnection

agreements require CLECs and ILECs to provide reciprocal compensation to each other for completing local calls that originate on each others networks. Several state commissions have considered and rejected the ILECs' position on reciprocal compensation for ISP traffic; the issue is pending before the FCC. TCG cannot predict whether the ILECs will ultimately be successful in asserting their positions, which could have a material adverse effect on TCG, both as an ISP and as a provider of TCG local exchange services to other ISPs.

The 1996 Act contains other provisions that, depending upon the manner in which they are implemented by the FCC and interpreted by courts, could potentially affect TCG's business, including a provision that limits the ability of a cable television operator and its affiliates to acquire more than a 10% financial interest or any management interest in an ILEC or CLEC that provides local exchange service in such cable operator's franchise area.

The United States Court of Appeals for the District of Columbia decided on July 1, 1997 to reject the system adopted by the FCC for the compensation of providers of pay telephone services by long distance companies. The Court remanded the matter to the FCC for further proceedings. TCG, as a provider of pay telephone services in a number of metropolitan areas, is a recipient of such pay telephone compensation payments. On October 9, 1997, the FCC adopted new rules which reduce the compensation to providers of pay telephone services.

In its efforts to encourage more competition in the provision of local telecommunications services, the FCC is making more radio spectrum available for the provision of wireless services. The FCC is also making additional spectrum available for satellite services, some of which will be capable of bypassing all local exchange service providers, including CLECs, to provide service directly to business customers.

In most states, TCG is subject to certification and tariff filing requirements with respect to intrastate services. Some states may, in addition to requiring the filing of tariffs for intrastate services, impose additional regulatory burdens that may materially affect TCG. See "Legislation and Regulation." TCG now provides interstate services under tariffs filed with the FCC. TCG may in the future be required to cancel its federal tariff filings at the FCC and implement replacement contractual arrangements, which could result in substantial legal and administrative expenses. See "Legislation and Regulation."

TCG could encounter additional competition from foreign carriers as a result of the World Trade Organization Agreement on Basic Telecommunications Services and implementing decisions by the FCC and comparable agencies in other countries. That agreement will also provide increased opportunities for TCG in other WTO markets.

Governmental and Other Authorizations

The development, expansion and maintenance of TCG's networks will depend on, among other things, its ability to obtain rights-of-way and other required governmental authorizations and permits, all in a timely manner, at reasonable costs and on satisfactory terms and conditions. In some of the cities or municipalities where TCG provides network services, it may pay license or franchise fees, usually based on a percentage of gross revenues, or a per foot right-of-way fee. The 1996 Act permits municipalities to charge such fees only if they are nondiscriminatory, but there can be no assurance that municipalities that presently favor a particular carrier, typically the ILEC, will conform their practices to the requirements of the 1996 Act in a timely manner or without a legal challenge. Furthermore, there can be no assurance that certain cities or municipalities that do not now impose fees will not seek to impose fees, nor can there be any assurance that, following the expiration of existing franchises, fees will remain at their current levels or that the franchises will be renewed. Some of TCG's franchise agreements also provide for increases or renegotiation of fees at intervals prior to the expiration thereof. TCG has recently initiated litigation with several municipalities asserting violations of the requirements of the 1996 Act. The need for such litigation may cause TCG to incur substantial administrative and legal costs. In addition, TCG has experienced substantial delays in obtaining certain municipal and other authorizations required for TCG's network expansion plans. Such delays could have a material adverse effect on TCG and could also compel TCG to enter into materially unfavorable long-term agreements with municipalities and others in an effort to shorten such delays.

In addition, TCG currently leases, and plans in the future to enter into facility arrangements on an arm's length basis for, significant numbers of optical fibers from cable television operators. There can be no assurance that municipalities which regulate such cable television operators will not seek to impose additional franchise fees on TCG or the cable operators in connection with such leases. There can also be no assurance that such cable television systems or TCG will be able to obtain all necessary permits, licenses, conduit agreements or pole attachment agreements from governmental authorities or private rights-of-way providers necessary to effectuate such lease transactions. The 1996 Act allows the FCC substantial flexibility when establishing regulations governing the rates that incumbent utilities may charge for access to poles, conduits and rights-of-way. The rates charged to TCG should not be affected by the acquisition of TCG by AT&T, but TCG cannot provide any assurance as to how the courts or regulatory authorities will interpret the relevant statutory provisions. As a result, there can be no assurance that TCG will be able to expand its existing networks or develop new networks successfully, which would have a material adverse effect on TCG's growth and financial condition. In connection with the AT&T Merger, the Cable Stockholders have agreed to enter into amendments to their existing facilities agreements and enter into new agreements with TCG upon terms that are favorable to TCG. See "Certain Relationships and Related Transactions of TCG—Facilities Arrangements."

If any of TCG's existing franchises, licenses or similar agreements for a particular metropolitan area were terminated prior to its expiration date or not renewed and TCG were forced to remove its fiber or abandon its network in place, such termination would have a material adverse effect on TCG's operations in that metropolitan area and could have a material adverse effect on TCG.

Dependence on Significant Customers

TCG has substantial business relations with a few large customers, including the major long distance carriers. During 1997, TCG's 10 largest customers accounted for approximately 40% of TCG's total revenues. During that period, no customer accounted for more than 10% of such revenues. A significant reduction in the level of services TCG performs for any of these customers could have a material adverse effect on TCG's results of operations or financial condition. Most of TCG's customer arrangements are subject to termination on short notice and do not provide TCG with guarantees that service quantities will be maintained at current levels, and there can be no assurance that such arrangements will be continued at the same service quantity levels. The AT&T Merger could make some competitors of AT&T less likely to continue or expand their relationships with TCG. TCG believes that most or all of the major long distance carriers are pursuing alternatives to their current practices with regard to obtaining local telecommunications services, including expanded use of wireless technologies and construction of their own facilities. This type of activity has accelerated as a result of the 1996 Act, which limits the authority of states to impose legal restrictions that have the effect of prohibiting a company, including an interexchange carrier ("IXC"), from providing any telecommunications services. In addition, the 1996 Act required ILECs to unbundle their network facilities and to offer their services for resale by other companies at wholesale discounts. Accordingly, long distance carriers are able to provide local service by reselling the facilities or services of an ILEC, which may be more cost-effective for an IXC than using the services of TCG or another CLEC.

Risks Associated with the Provision of Internet Services

The rapid evolution of the Internet has created a highly competitive and fragmented market for Internet access and services, which is characterized by rapidly changing technology, evolving industry standards and frequent new product and service introductions. TCG's Internet products and services must compete on the basis of transmission speed, quality, cost, ease-of-use and customer support. Demand and market acceptance for TCG's products and services are subject to a high level of uncertainty. The technologies currently used by TCG with respect to its Internet products and services could become outdated as a result of rapid technological advances, which could make TCG's existing products and services less competitive in the marketplace, or could result in increased costs to TCG as it adopts new technologies. In addition, crucial issues concerning the commercial use of the Internet remain unresolved and may impact the growth of the Internet markets targeted by TCG. The Federal Trade Commission is considering whether to recommend the adoption of laws or regulations

to protect consumer privacy on the Internet, which could require TCG to change the way it collects or uses customer information. Market acceptance of TCG's Internet products and services is substantially dependent upon its customers' understanding and adopting the Internet as a new way of conducting business and exchanging information. If the market develops more slowly than expected, or remains highly competitive, TCG's Internet products may be materially adversely affected.

The law relating to liability of ISPs for information transmitted over their networks is unsettled. There is a potential that the use of TCG's Internet products and services could give rise to claims against TCG under both United States and foreign law for defamation, negligence, copyright or trademark infringement or other theories based on the nature and content of materials distributed over its networks. There is uncertainty concerning how evolving copyright and trademark laws will be applied to online environments. Patent claims could also be asserted against TCG in the future based upon its services or technology. A number of lawsuits have sought, sometimes successfully, to impose liability on ISPs for defamatory speech and infringement of copyrighted materials. The 1996 Act prohibits, and imposes criminal penalties and civil liability for using, an interactive computer service for transmitting indecent or obscene communications. Although the anti-indecency provisions of the 1996 Act were declared unconstitutional by the U.S. Supreme Court on June 26, 1997, a number of states and foreign countries have adopted or are currently considering similar legislation. Litigation challenging the constitutionality of such statutes is pending. The imposition upon ISPs or Web server hosts of liability for materials transmitted over their systems could require TCG to implement measures to reduce or discontinue certain product or service offerings. Furthermore, the manner and extent to which Internet services and facilities may be subject to regulation by the FCC or by state and local governments is uncertain. The cost of underlying telecommunications circuits for ISPs may increase in the near future as a result of FCC regulatory actions implementing the 1996 Act. In addition, TCG's general liability insurance may not cover potential claims of the foregoing types and may not be adequate to indemnify TCG for all liability that may be imposed. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse impact on TCG's business, financial condition and results of operations.

Rapid Technological Changes

The telecommunications industry has experienced and is expected to continue to experience rapid and significant changes in technology. While TCG believes that, for the foreseeable future, these changes will neither materially affect the continued use of fiber optic cable or digital switches and transmission equipment nor materially hinder TCG's ability to acquire necessary technologies, the effect of technological changes on TCG's business and operations cannot be predicted. Also, alternative technologies may develop for the provision of services to customers, such as the possible increased use of wireless technologies to provide basic telephone service to residences or businesses. TCG may be required to select in advance one technology over another; but TCG cannot predict with any certainty, at the time TCG is required to make its investment, which technology will prove to be the most economic, efficient or capable of attracting customer usage.

Control by Principal Stockholders; Conflicts of Interest; Possible Competition by the Cable Stockholders

The Cable Stockholders hold all of the issued and outstanding TCG Class B Common Stock, representing approximately 95.0% of the combined voting power of the outstanding TCG Common Stock, as of March 23, 1998. After giving effect to the issuance of shares of TCG Class A Common Stock in the Merger, the Cable Stockholders will continue to hold approximately 93.2% of the combined voting power of the outstanding TCG Common Stock and will have the collective ability to control all matters requiring stockholder approval, including the nomination and election of directors. If the AT&T Merger does not occur, the disproportionate voting rights of the TCG Class B Common Stock relative to the TCG Class A Common Stock may make TCG a less attractive target for a takeover than it otherwise might be, or render more difficult or discourage a merger proposal, a tender offer or a proxy contest, even if such action were favored by a majority of the holders of the TCG Class A Common Stock.

All of the Cable Stockholders are in the telecommunications business and may, now or in the future, provide services which are the same or similar to those provided by TCG. Affiliates of TCI, Cox and Comcast, which

collectively have designated, and, prior to the consummation of the AT&T Merger, will have the right to designate, a majority of the directors of TCG. These shareholders, together with an affiliate of Sprint, have formed Sprint PCS, a provider of wireless telecommunications services. Furthermore, affiliates of TCI, Cox and Comcast are principal owners of At Home Corporation ("At Home"), a provider of Internet related services over the @HomeTM network. TCG believes that the Internet services offered or to be offered by At Home may compete with services offered or to be offered by TCG. In addition, no assurance can be given that the Cable Stockholders will not otherwise compete with TCG in certain markets or in the provision of certain telecommunications services. Although directors of TCG who are also directors, officers or employees of the Cable Stockholders or any of their respective affiliates have certain fiduciary obligations to TCG under Delaware law, such directors and the Cable Stockholders, as the controlling stockholders of TCG, are in positions that may create conflicts of interest with respect to certain business opportunities available to and certain transactions involving TCG. The Cable Stockholders have not adopted any special voting procedures to deal with such conflicts of interest, and there can be no assurance that any such conflict will be resolved in favor of TCG. In this regard, TCG's Amended and Restated Certificate of Incorporation provides that TCG may not provide certain (i) wireless communications services (other than products and services delivered via point-to-point microwave and milliwave transmissions) or (ii) telecommunications services to residences until, in each case, the earlier of June 26, 2001, or the date on which the holders of TCG Class B Common Stock no longer represent at least 50% of the voting power of the outstanding TCG Common Stock, without the affirmative vote of the holders of a majority of the TCG Class B Common Stock, subject to certain exceptions. Upon consummation of the AT&T Merger, TCG's Amended and Restated Certificate of Incorporation will be amended, among other things, to delete such provisions.

Potential Issuance of Preferred Stock; Potential Anti-takeover Provisions

TCG's Board of Directors has the authority, without any further vote or action by TCG's stockholders, to issue up to 150,000,000 shares of Preferred Stock in one or more series and to determine the designations, powers, preferences and relative, participating, optional or other rights thereof, including without limitation, the dividend rate (and whether dividends are cumulative), conversion rights, voting rights, rights and terms of redemption, redemption price and liquidation preference. Although TCG has no current plans to issue any shares of Preferred Stock, the rights of the holders of TCG Common Stock would be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. Issuance of Preferred Stock could have the effect of delaying, deterring or preventing a change in control of TCG, including the imposition of various procedural and other requirements that could make it more difficult for holders of TCG Common Stock to effect certain corporate actions, including the ability to replace incumbent directors and to accomplish transactions opposed by the incumbent Board of Directors.

Dependence on Key Personnel

The loss of the services of any of Robert Annunziata, John A. Scarpati, Robert C. Atkinson, Joel Gross, Alf T. Hansen or Stuart A. Mencher could have an adverse impact on TCG. TCG has employment agreements with each of Messrs. Annunziata, Scarpati, Atkinson, Gross, Hansen and Mencher. TCG does not carry key man life insurance on any such personnel. TCG believes that the future success of TCG will depend in large part on its continued ability to attract and retain highly skilled and qualified personnel. See "Management of TCG."

Environmental Matters

In connection with its management of the Teleport satellite earth station complex in Staten Island, New York, TCG monitors electromagnetic radiation levels in the vicinity of the Teleport facility on a quarterly basis. The quarterly monitoring reports provided to TCG indicate that the type and level of electromagnetic radiation being emitted into publicly accessible areas do not violate any laws, rules or regulations of which TCG is aware. In addition, TCG and its contractors are subject to various laws and regulations governing hazardous or environmentally sensitive materials or conditions which may occur in connection with the construction, installation, operation or maintenance of TCG's facilities. There can be no assurance that hazardous materials or

conditions, including electromagnetic radiation emitted from the Teleport satellite earth station complex or any of TCG's other facilities, might not expose TCG to tort or other claims that could have a material adverse effect on TCG.

Shares Eligible for Future Sale

As of March 23, 1998, there were 61,590,745 shares of TCG Class A Common Stock outstanding (175,079,785 shares assuming the conversion of all outstanding shares of TCG Class B Common Stock), of which 56,147,198 shares are tradeable without restriction by persons other than "affiliates" of TCG. The remaining shares of TCG Class A Common Stock (including any TCG Class A Common Stock issued upon conversion of TCG Class B Common Stock) are deemed "restricted" securities within the meaning of the 1933 Act, and, as such, may not be sold in the absence of registration under the 1933 Act or an exemption therefrom, including the exemptions contained in Rule 144 under the 1933 Act. Upon consummation of the Merger, it is anticipated that there will be approximately 84,590,745 shares of TCG Class A Common Stock issued and outstanding. The additional shares to be issued in the Merger will be tradeable without restriction by persons other than "affiliates" of TCG or ACC.

If the AT&T Merger does not occur, no assurance can be given that holders of the TCG Class B Common Stock will not decide, based upon then prevailing market and other conditions, to convert their TCG Class B Common Stock to TCG Class A Common Stock and to dispose of all or a portion of such stock pursuant to the provisions of Rule 144 under the 1933 Act or pursuant to the demand registration rights contained in the Amended Stockholders' Agreement or otherwise. In addition to the demand registration rights of the holders of the TCG Class B Common Stock under the Amended Stockholders' Agreement, certain holders of TCG Class A Common Stock that acquired such TCG Class A Common Stock in the TCG Reorganization or in connection with TCG's acquisition of CERFnet and BizTel have "piggy-back" registration rights. No assurance can be given that holders of the "restricted" shares of TCG Class A Common Stock will not decide to dispose of them pursuant to the provisions of Rule 144 or otherwise.

No predictions can be made about the effect, if any, that market sales of shares of TCG Class A Common Stock or the availability of such shares for sale would have on the market price prevailing from time to time. Nevertheless, sales of substantial amounts of TCG Class A Common Stock in the public market, or the perception that such sales could occur, may have an adverse impact on the market price for the shares of TCG Class A Common Stock offered hereby or on the ability of TCG to raise capital through a public offering of its equity securities.

Absence of Dividends on Common Stock

TCG has never paid or declared dividends on its capital stock and intends to retain future earnings, if any, to finance the development and expansion of its networks and operations. In addition, TCG's debt instruments contain covenants that may limit the ability of TCG to pay dividends on the TCG Common Stock. Therefore, TCG does not anticipate paying any dividends in the foreseeable future.

The Year 2000

The Year 2000 problem arises from the fact that due to early limitations on memory and disk storage many computer programs indicate the year by only two digits, rather than four. This limitation can cause programs (both system and application) that perform arithmetic operations, comparisons, or sorting of data fields to yield incorrect results when working outside the year range of 1900-1999. TCG began its investigation into Year 2000 compliance in the fourth quarter of 1996 and expects to complete its analysis during 1998. The analysis covers all network equipment used to provide services to TCG's customers, network operations support systems used to support the operations of its networks, and all administrative support systems. TCG is working closely with its vendors to effectuate their Year 2000 correction plans on a timely basis. There can be no assurance that such procedures will be successfully implemented within the required time frames or that additional procedures will not be necessary. A failure of TCG's or of its significant vendors' computer systems could have a material adverse effect on TCG's business and financial position and results of operations. The cost to TCG of the procedures to correct the Year 2000 problem is currently estimated at \$5.0 million.

UNAUDITED PRO FORMA FINANCIAL DATA

The following unaudited pro forma condensed consolidated financial statements are based on the historical presentation of the consolidated financial statements of TCG and ACC. The Unaudited Pro Forma Statements of Operations for the year ended December 31, 1997 give effect to the Merger as if it had occurred on January 1, 1997. The Unaudited Pro Forma Condensed Consolidated Balance Sheet as of December 31, 1997, gives effect to the Merger as if it had occurred on December 31, 1997. The pro forma condensed consolidated financial statements do not include the effects of certain other acquisitions by TCG and do not give effect to the AT&T Merger. The unaudited pro forma consolidated financial statements should be read in conjunction with the historical financial statements, including notes thereto, of TCG and ACC included herein. See "Available Information," "The Business of TCG—TCG Recent Developments," "The Business of ACC—Recent Developments" and "The Merger—Anticipated Accounting Treatment".

The Merger is expected to be accounted for under the purchase method of accounting. The total purchase price of ACC has been allocated to tangible and intangible assets and liabilities based upon management's preliminary estimate of their respective fair values with the excess of cost over net assets acquired allocated to goodwill and is subject to further change.

The unaudited pro forma condensed consolidated statements may not be indicative of the results that actually would have occurred if the transactions had been in effect on the dates indicated or which may be obtained in the future. These combined pro forma statements do not reflect any potential savings which may result from the combined operations of TCG and ACC and exclude merger and acquisition related expenses.

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET (1)

As of December 31, 1997

Unaudited
(dollars in thousands)

	(2) ACC Historical	(2) TCG Historical	(3) Pro forma Adjustments	TCG/ACC Pro forma Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,988	\$ 173,331	\$ —	\$ 177,319
Marketable securities	—	306,828	—	306,828
Accounts receivable:				
Trade	76,909	85,081	(214)	161,776
Related parties	—	6,351	—	6,351
Miscellaneous	3,732	6,639	—	10,371
Accounts receivable-net	80,641	98,071	(214)	178,498
Prepaid and other current assets	7,718	21,931	(733)	28,916
Total current assets	92,347	600,161	(947)	691,561
Fixed assets—at costs:				
Communications network	189,249	1,873,083	733	2,063,065
Less accumulated depreciation and amortization	(53,523)	(379,987)	—	(433,510)
Fixed assets—net	135,726	1,493,096	733	1,629,555
Goodwill and other intangibles—net accumulated amortization	73,607	277,309	867,284	1,218,200
Other assets	17,938	85,735	—	103,673
Total assets	\$319,618	\$2,456,301	\$867,070	\$3,642,989
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 85,940	\$ 282,231	\$ 4,786	\$ 372,957
Note Payable	1,000	—	—	1,000
Current maturities of long-term debt	2,853	—	—	2,853
Current portion of capital lease obligations	—	33,724	—	33,724
Short-term bank debt	—	52,575	—	52,575
Other current liabilities	—	6,742	—	6,742
Total current liabilities	89,793	375,272	4,786	469,851
Capital lease obligations	—	19,095	—	19,095
Deferred income taxes	1,888	—	—	1,888
Long-term debt	90,221	—	—	90,221
Senior Notes	—	300,000	—	300,000
Senior Discount Notes	—	734,984	—	734,984
Unamortized notes costs	—	(23,059)	—	(23,059)
Other liabilities	—	18,393	—	18,393
Total liabilities	181,902	1,424,685	4,786	1,611,373
Commitment and contingencies				
Stockholders' equity				
Common Stock, Class A	275	613	(64)	824
Common Stock, Class B	—	1,215	—	1,215
Additional paid-in capital	126,707	1,654,328	873,082	2,654,117
Unrealized gain on marketable securities	—	164	—	164
Accumulated deficit	14,083	(503,679)	(14,083)	(503,679)
Cumulative translation adjustment	(1,739)	—	1,739	—
	139,326	1,152,641	860,674	2,152,641
Less cost of Class B Common Stock in treasury	(1,610)	(121,025)	1,610	(121,025)
Total stockholders' equity	137,716	1,031,616	862,284	2,031,616
Total liabilities and stockholders' equity	\$319,618	\$2,456,301	\$867,070	\$3,642,989

The accompanying notes are an integral part of these financial statements.